

IKWEZI



IKWEZI



ANNUAL REPORT

01 JULY 2007 – 30 JUNE 2008

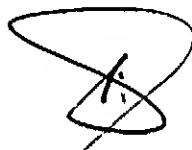
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PART 1: GENERAL INFORMATION

Submission of the Annual Report to the Speaker/Mayor

To the Speaker/Mayor, Cllr Sizwe Mngwevu; I have the honour of presenting the 2007/08 Annual Report.



Mr Thandekile Themba Mnyimba

Municipal Manager:

Ikwezi Local Municipality



Cir Sizwe Mngwevu

1.1 Report by the Speaker/Mayor

It is a great pleasure to present this annual report as a benchmark that reflects progress in key areas while a number of important new initiatives and intervention were commenced. To mark this historic occasion, the municipality undertook an open and vigorous review of its performance and achievements, The Ikwezi Vision 2011 strategic agenda which guide and laid a basis for setting targets for the next decade.

The past two years have seen dramatic institutional changes on basic services delivery in Ikwezi. In tackling the challenges faced by the municipality in fighting poverty through building a sustainable and growing economy within the context of the goat and mohair initiative and these areas:

- Improving the market and public confidence to Ikwezi by attracting investment and building loyalty to the people.
- Identifying and exploiting the opportunities to our advantage in order to meet the political strategic agenda.
- Intensifying enterprise support by developing small and medium enterprises which can play a huge role in job creation.

Ikwezi Municipality as a sphere of local government and as an institution cannot proceed to drive development initiatives in isolation. Provincial government and the District must be involved in *planning and development at local level*. This integrated planning will lead to desired strategic

alignment of Integrated Development Plan ,Spatial Development Framework , budgeting, Local Economic Development and evaluation

Financial statements for the reporting financial year have been compiled in house by our own staff in accordance with the standards laid down by National Treasury. We are also proud to have used our expertise to assist our cluster municipalities. I am also proud to announce that we have progressed from a **disclaimer** in the past financial year to a **qualified audit opinion** in the financial year under review. Every effort is being made to get to an unqualified audit report in the current financial year. To that end , my managers have undertaken to address issues raised by the office of the Auditor – General and with the necessary support from all concerned , our goal is within our reach. I further wish to highlight shortcomings in the following areas :

- Skills and capacity challenges facing Ikwezi - e. g Human, Technical and Finance.
- Local Economic Development Unit is under capacitated and it needs to be attended to as a matter of urgency.
- The internal audit challenges faced by this municipality are overwhelming. Auditor General outcome has improved for the first time in the history of this municipality , mainly because council took a resolution to have the Mayor and Municipal Manager take full control over the audit and financial oversight role.
- The Infrastructure backlog of approximately R183 million will not be addressed by the MIG allocation of R3, 6 m this is one of the challenges facing the small municipalities in term of fully performing political mandates by speeding up service delivery. Ikwezi has developed a Comprehensive Infrastructure Plan (CIP) in an effort to address the infrastructure related backlog. Water and sanitation backlog alone amounts to R60 million and water is one of the major problems facing the municipality.

In conclusion, and on a personal note, I would like to thank my fellow Councillors for their loyal support and their unwavering support of Ikwezi Municipality in the last financial year. The achieved successes can be attributed to their hard work and unflinching dedication. I would also like to express my appreciation to the Staff under the leadership of the municipal manager, Mr Thandekile Mnyimba, who in few months, worked tirelessly towards the realisation of vision 2011 to transform the organisation's strategic profile, with the aim of attaining excellence as a government at a lower level.

My sincere thanks must also go to all our strategic partners, stakeholders and the office of the Premier for their continued support and direction.

A handwritten signature in black ink, appearing to read "Sizwe Mngwewu". It is written in a cursive style with some loops and crosses.

Cllr Sizwe Mngwewu

Speaker/Mayor

January, 2009



**Council and Management team of Ikwezi : Standing (left to right) Cllr A Lizwane , Cllr J Bester and Cllr NP Vande and
Sitting (from left to right) : Mr T Mnyimba , Cllr S Mngwevu and
Mr N Bomvane**

IKWEZI



Mr M Manyakanyaka : Hardwood Farm Manager



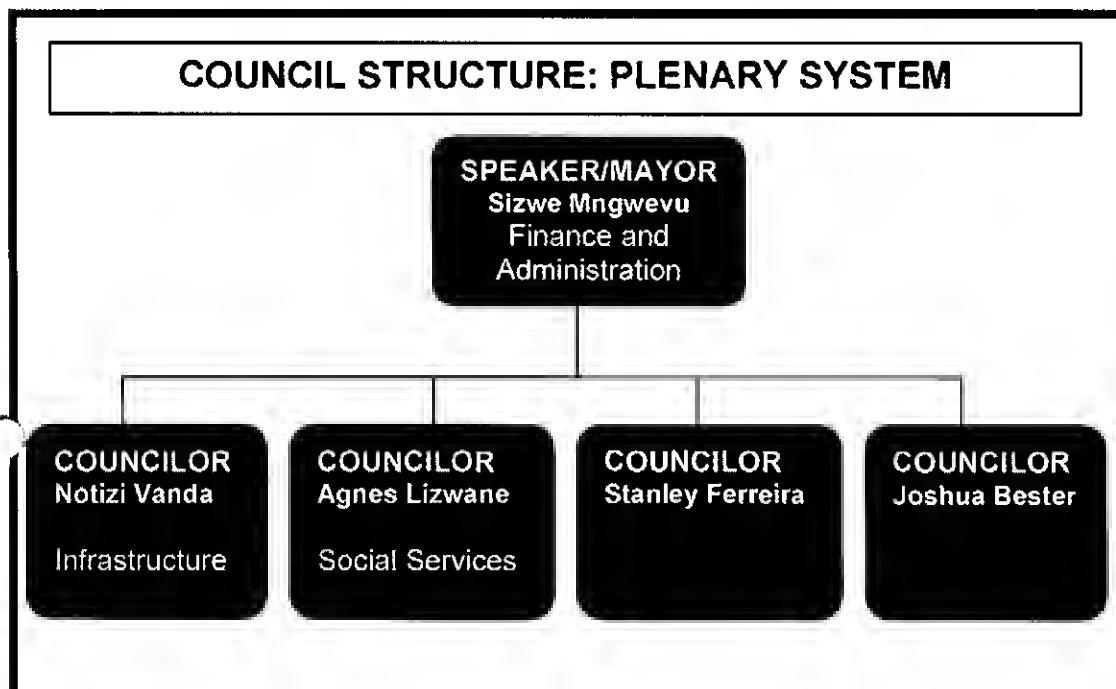
Cllr S Ferreira



Mr Thandekile Mnyimba

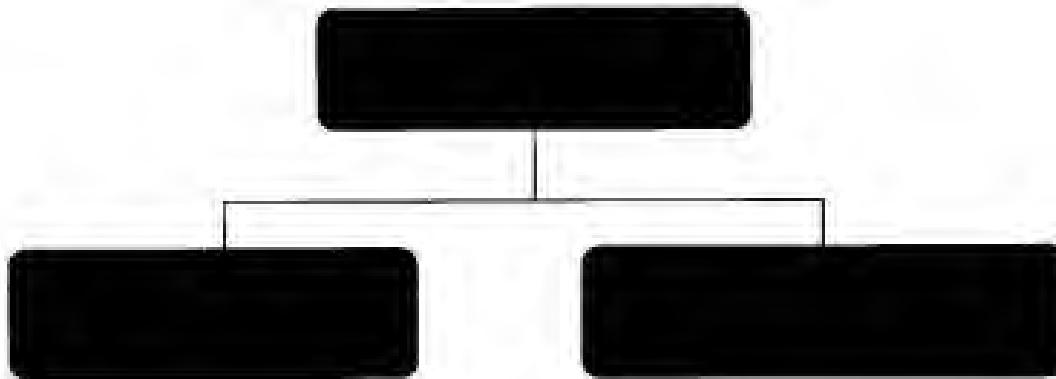
1.2 Executive Summary by the Municipal Manager

Ikwezi Local Municipality has a Plenary System where the Speaker serves as a Mayor. There are five councillors in total, three from the African National Congress (ANC) including the Speaker/Mayor which is the ruling party, one from the Democratic Alliance (DA) and one from Jansenville Kliplaat Alliance (JKA). There is no ward system instead council has units that act as wards.

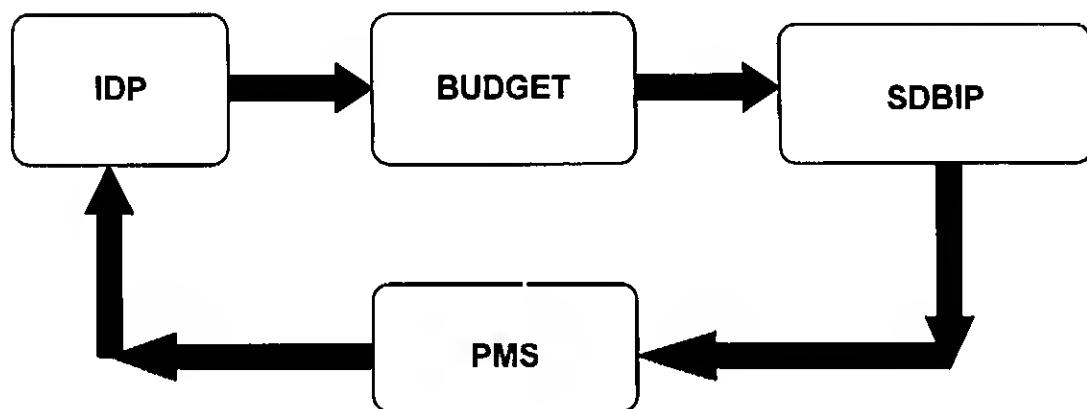


The Council has set a strategic agenda, "Vision 2011" that must be met before or at the end of its term in 2011. The Council adopted a macro structure that will be able to achieve the set vision.

IKWEZI MANAGEMENT



During the reporting year, Council followed the strategic planning process of local government with shortcomings. The Auditor General's Report also identified these shortcomings, for example, the absence of strategic alignment of the IDP with the Budget. The following strategic planning process was followed:



Vision 2011 as a strategic agenda of Council stands on four pillars, namely:

- ↳ Rural Economic Development
- ↳ Infrastructure Development
- ↳ Human Development and
- ↳ Institutional Development

The four pillars are informed by the five National Key Performance Indicators, namely:

- ↳ Service Delivery
- ↳ Local Economic Development
- ↳ Institutional Transformation
- ↳ Good Governance and
- ↳ Financial Viability

In the last two quarters of the reporting year Council approved three projects that will change the face of Ikwezi municipal area. The projects are the shopping mall and integrated human settlement development, the solar and wind technology farm and mining opportunities in Hardwood Farm. In the same period, Council has conceptualised the **November 2009 Inaugural International Mohair Summit**. The summit will coincide with the “**2009 United Nations Year of the Natural Fibre**”.

During the reported financial year, the municipality has established strategic partnerships with various strategic partners such as:

- ↳ **The Office of the Premier** – this office is assisting Ikwezi in addressing socio – economic challenges.
- ↳ **Rural and Urban Livelihoods (Ruliv)** – Ruliv will provide agency support in Ikwezi by mobilising human, technical and financial resources.
- ↳ **Industrial Development Corporation** – IDC has shown interest in economic development initiatives around Ikwezi, such as the “Cacadu – Ikwezi Goat and Mohair Initiative” and Solar and Wind Technology Farm Project.
- ↳ **PPC** – through Corporate Social Investment, PPC is currently investing in the Goat and Mohair Initiative (Hardwood Farm Component).
- ↳ **University of Potsdam (Germany)** – the German Ministry of Education appointed the University of Potsdam to pilot the Communal Water House Project in the Republic of South Africa. Ikwezi is partnering with the Department of Science and Technology in this novel **Grey Water Recycling Project**.
- ↳ **Department of Science and Technology** – the department is working with municipality on the above – mentioned project.

Council has taken a conscious decision that to be able to overcome its challenges, it needs to hold hands with both public and private sector.

The municipality has registered capital projects for MIG allocation but experiencing serious technical and human capacity challenges. These challenges have a direct impact on non – spending although there is a chronic need for these projects.

The Ikwezi municipal area is endowed with unskilled and semi skilled labourers. Skills development is a prerequisite for any growing economy. The municipality through its Human Development pillar in the IDP has taken a conscious decision to address this complex issue.

Through Ikwezi – Cacadu Goat and Mohair Initiative in partnership with Mohair South Africa, Ikwezi Local Municipality is training five local people in farming over a period of three years. Through Sakh' isizwe Programme by the Department of Roads and Transport (DoRT), approximately one hundred and fifty local people are trained in small scale construction. Through the Expanded Public Works Programme (EPWP) by the DoRT, fifty four learners are trained in various construction disciplines in order to be emerging contractors in their own right. Ikwezi Local Municipality together with Mohair South Africa will launch a shearer's training programme in the new financial year.

Since January 2008, Council has been addressing the organisational structure. In June 2008, Council approved a macro structure that has been consulted with organised labour and staff. The micro structure will be tabled to Council before end December 2008. This process will also ensure that each position has clear job description and a performance plan will be drawn for each position in the near future. The final organisational structure will only be approved by Council and finalised in the next financial year and will thus form part of that annual report.

The Audit Committee which is a shared service with Camdeboo Local Municipality and Blue Crane Local Municipality sits periodically as scheduled to perform its statutory duties as prescribed by Municipal Finance Management Act (MFMA). The Internal Audit is an outsourced function (PwC) and it is also a shared service with municipalities mentioned above. Internal auditors have performed their statutory duties as prescribed by the MFMA. There is still room for improvement for both the Audit Committee and internal auditors.

Council submitted the Annual Financial Statements to the Auditor General before 31 August 2008. The Auditor General conducted a three months audit and established a **qualified opinion**. The Auditor General based its qualified opinion on the following issues:

- ↓ **Leave Reserve Fund** – this issue will be addressed in the new financial year.
- ↓ **Asset Register** – this issue will not be fully addressed in the new financial year.
- ↓ **Debtors** – this issue will be fully addressed in the new financial year.

The Auditor General, Audit Committee and Internal Auditors all agree that there has been great improvement in Council's financial management during the reported financial year. Council managed to move from a **disclaimer** to a **qualified opinion**. Council is now determined to progress to an unqualified report.

Council has held public meetings to give community an opportunity to participate in decision making. These public meetings also serve as an opportunity for Council to give feedback to the community. Performance reviews of section 57 employees were conducted although not as periodically as it was envisaged. Council is in the process of developing a Communication's Strategy which will be tabled to Council in December 2008 as a draft. Ikwezi Local Municipality has strong intergovernmental relations with other organs of state. These relations will be further strengthened when the Communication's Strategy is finalised.

The municipality has developed good relations with organised labour. The Local Labour Forum sits periodically and the principle of collective wisdom is practised.

Local government continued to play both strategic and operational roles in the socio – economic transformation of South Africans. National government understands with shortcomings, that local municipalities are the face of government. Local Municipalities are a point of contact between government and its citizens.

Inequalities amongst municipalities have produced different performances resulting in upheavals in non – performing municipalities. The question is, "are poor municipalities equipped to bring a better life to all their inhabitants?" The Equitable Share Formula is still a grave concern in achieving the greater objectives of local government as stipulated in the Constitution.

Another challenge in local government is the Municipal Infrastructure Grant (MIG). Ikwezi Local Municipality, for example, has an infrastructure backlog of approximately R183m in total. Internal Bulk Water Supply alone is approximately R60m – the MIG allocation to Ikwezi Local Municipality is R3,6m. The development of **Comprehensive Infrastructure Plans** (CIPs) is the only hope left to drastically address infrastructure backlogs in municipalities.

The municipality is also participating in EDI Holding's restructuring of electricity distribution. Council is awaiting section 78 assessment which will be conducted by a Professional Service Provider appointed by EDI Holdings.

Municipalities in the Karoo region formed a Karoo Cluster that seeks to identify common challenges and find possible solutions. The following municipalities are members of the cluster:

- ◆ Ikwezi Local Municipality (Chairperson)
- ◆ Sundays River Valley Municipality
- ◆ Baviaans Local Municipality
- ◆ Camdeboo Local Municipality and
- ◆ Blue Crane Local Municipality

The cluster is currently performing well but not to its full potential. This concept is based on collective wisdom as we are faced with common challenges, *inter alia*, scarcity of water, skills shortage and under development.

1.3 Mission Statement

Vision

Ikwezi would like to be recognized as follows:

- Economically prosperous
- Self-sustainable and
- Socially responsive municipality committed to effective and efficient service provision and facilitates empowerment programmes
- That will result in local residents being self-reliant

Mission

- We believe our primary responsibility is with the residents of Ikwezi. We exist to provide community services; promotion and deepening of local democracy; to stimulate socio-economic development; creation of space for community participation and human development; and to facilitate sustainable livelihood for local residents.
- We strive to be transparent and accountable in the execution of our responsibilities, and being effective and efficient in the implementation of the programmes and projects.
- We recognize the value and mutual benefits of networking and working in partnership with stakeholders such as District Municipality, SALGA, Provincial and National Government Agencies

Values

Ikwezi Local Municipality is guided by the principles of Batho Pele which are:

- Consultation
- Service Standards
- Access
- Courtesy
- Information
- Openness and transparency
- Redress
- Value for money

Strategic goals and objectives

As mentioned previously Ikwezi Municipality's identified development priorities are as follows:

- Rural economic development.
- Infrastructure investment.
- Human development.
- Institutional growth and development.

DEVELOPMENT PRIORITY 1: RURAL ECONOMIC DEVELOPMENT

Objective 1 : To enhance the rural economic potential within Ikwezi

Action Plans: a) Facilitate land acquisition for emerging farmers

b) Determine the viability and economic potential of Waterford in relation to the Addo Elephant Park.

c) Revitelise railway transport.

d) Support the goat and mohair industry

e) To provide a comprehensive overview of LED in Ikwezi

Objective 2 : To develop local economic competence and technical skills

Action Plans: a) Promote experiential learning in the municipal's area of jurisdiction.

b) Promote Vukuzenzele approach

c) Provide access to information

DEVELOPMENT PRIORITY 2 : INFRASTRUCTURE DEVELOPMENT

Objective 1 : To ensure the existing level of infrastructure is sustained

Action Plans: a) Ensure effective water demand management

b) Ensure cost effective electricity distribution

c) Ensure effective waste collection and management

d) Promote municipal road maintenance

Objective 2 : To provide for the basic needs of the Ikwezi community

Action Plans: a) Eradicate the bucket system within the jurisdiction of Ikwezi

b) Provide a standardised bulk electricity supply

c) Provide shelter to inhabitants of Ikwezi

d) Promote bulk water supply within Ikwezi

DEVELOPMENT PRIORITY 3 : HUMAN DEVELOPMENT

Objective 1 : Build the capacity of the potential workforce within Ikwezi

Action Plans: a) Develop labour market intelligence

b) Promote human resource development

Objective 2 : To strengthen community participation in government programmes

Action Plans: a) Ensure the effective co-ordination of health related activities

b) Promote compliance of by-laws

c) Strengthen relations with NGO's / CBO's

DEVELOPMENT PRIORITY4: INSTITUTIONAL GROWTH AND DEVELOPMENT

Objectiva 1 : Strengthen the Institutional capacity of the Ikwezi local municipality

Action Plans: a) Integrate Ikwezi's needs into the Cacadu District Municipality's capacity building strategy

b) Promote the concept of performance management within the Institution

c) Enhance the knowledge base of employees

Objectiva 2 : Enhance mechanisms and strategies for revenue collection

Action Plans: a) Promote the payment of service charges among local residents

b) Advocate increase in equitable share

1.4 Legislative Mandate of local government

The mandate for local government is enshrined in the Republic of South Africa's Constitution, Act 108 of 1996. Section 152 (1) of the Act sets the following objectives for local government:

- a) to provide democratic and accountable government for local communities;
- b) to ensure the provision of services to communities in a sustainable manner;
- c) to promote social and economic development;
- d) to promote a safe and healthy environment; and
- e) to encourage the involvement of communities and community organisations in the matters of local government.

(2) A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).

Section 153 of the Act sets the following developmental duties for municipalities:

- (a) structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and
- (b) participate in national and provincial development programmes.

Ikwezi Local Municipality is guided by the above mentioned constitutional objectives together with the Municipal Systems Act, 2000; Municipal Finance Management Act, 2003 and all other related pieces of legislation and regulations. The Batho Pele Principles also take a centre stage when *discharging our duties.*



The German Ministry of Education appointed the University of Potsdam to pilot the Communal Water House Project in the Republic of South Africa – seen above is the Ikwezi Municipal Manager Mr Thandekile Mnyimba (standing), Prof Konrad Soyez from the University of Potsdam, Germany and the Mayor of Ikwezi Mr Sizwe Mngwevu signing the memorandum of understanding.

PART 2: DEPARTMENTS

2.1 Office of the Municipal Manager

The Office of the Municipal Manager consists of the following departments:

- 1) Corporate Services
- 2) Development and Facilitation
- 3) Social Services

The Municipal Manager besides his office also manages Corporate Services and Social Services.

Council operations were satisfactory during the reporting period. Council meetings convened periodically as prescribed by the act. Resolutions were executed by management and monitored by political leadership.

The Registry Head compiled a Records Management Policy as prescribed by the National Archives Act, No 43 of 1996. The policy has been approved by National Archives offices in King Williams Town. Plans are to develop a new registry procedure manual.

Management paid special attention to training and development during the reporting year. In 2007/08 financial, training budget was R20 000 for the whole institution. In 2008/09 financial year training budget has increased to R230 000. Human, financial and technical capacity and skills shortage are serious challenges facing the municipality and training and development of internal is going to be a corner stone of strategic planning going forward.

The municipality faced **high staff turnover** at top management level during the reporting year. The contract of the municipal manager was not renewed, the chief financial officer resigned, the director: infrastructure resigned but reconsidered and newly appointed chief financial officer also resigned.

The root cause of this challenge is the ridiculous salary packages of section 57s in Ikwezi. These salary packages are even below the SALGA salary guidelines. The municipality has a very low revenue base as it is servicing very poor communities. The municipality has turned to be a hunting ground for medium and high capacity municipalities.

Council fully complies with affirmative action as staff is representative of the demographics of the area. The Workplace Skills Plan was functional and adopted by Council. The following policies were developed and adopted:

- Skills Development Policy
- Delegation of Authority
- Recruitment and Selection Policy
- HIV/AIDS Policy
- Standing of Operating Procedures on disciplinary action

The following policies will be developed in the new financial year:

- Retention Strategy
- Smoking Policy
- Leave Policy
- Overtime Policy
- Remuneration Policy
- Succession Planning
- Bursary Scheme

Development and Facilitation involves strategic planning of Ikwezi Municipality and its primary role is :

- Managing the development , implementation and review of the IDP
- Spatial Development Planning
- Financial Resource Mobilization
- Communications
- Intergovernmental Relations
- Performance Management

During the reporting period the Integrated Development Plan processes were followed as prescribed by the adopted IDP Framework and Process Plan. Local municipalities have an obligation to provide the public with open access to information about policies, programmes, ~~and initiatives.~~ In 2000 Salga resolved that municipalities:

- Establish communication's units/ officer

- Establish local communicators forums
- Develop communication strategies



Provincial Executive Committee's visit to ikwezi in 2008 led by former Premier Nosimo Balindlela

It is pleasing to present the following success highlights with regard to communications:

- A Communications Policy was in place
- A local communicators forum was established in May 2008
- Currently the municipality is in a process of developing a communications strategy. This would allow better communication with communities and provision of information on time
- SABC Road Show in June 2008
- EC Premier and EXCO visit in June 2008

The purpose of Inter – Governmental Relations (IGR) is to strengthen intergovernmental relations, to ensure synergy in the planning and implementation of projects within the three spheres of government and to share information amongst different spheres of government. With effect to the above, a resolution was taken at a provincial IGR sitting that all local municipalities should establish local IGR forums as soon as possible in order to speed up government effort of integrated planning. In May 2008, a local IGR forum was established comprising of all sector departments in operation locally including NGO's.

Council adopted an Electronic Performance Management System as a service delivery monitoring tool. A Performance Management Framework together with a Performance Management Process Plan was also adopted. Performance assessment of section 57 set although not as periodically as prescribed. During the second half of the reporting financial year, the assessments set accordingly.

Ikwezi Local Municipality has an under capacitated Local Economic Development (LED) Unit. It consists of one LED Officer that is currently capacitated by the municipality.

Department of Housing, Local Government and Traditional Affairs' (DHLG&TA) through Cacadu District Municipality (CDM) together with Ikwezi is in a process of appointing an economist to head the LED Unit. The appointed economist will act as LED Manager for a period of one year.

The Office of the Municipal Manager is currently driving the following projects:

- **Ikwezi Development Initiative** – this project consists of a shopping complex and an integrated human settlement. This project is going to change the face of the area. Capital injection to the area excluding the multiplier effect is estimated at R50m.
- **Solar and Wind Technology Farm** – this project will position Ikwezi as a leading municipality in development of Renewable Energy. Capital injection to the area is estimated at R500m.
- **The November 2009 Inaugural International Mohair Summit** – this summit will be the first of its kind in the world. The current budget for the summit is R13.6m of which 75% must remain within the economy of the area.
- **Mining** – this project will benefit the people of Kliplaat area. Capital injection is estimated at R250m.

All the above mentioned projects will change the history, landscape and the economy of Ikwezi municipal area. Unfortunately, there must be public investment (infrastructure development) in the area before it can attract private investment.



Mr. N. Bomvane

2. 2 Finance

Overview

This report is compiled for the financial year ending 30 June 2008. The annual financial statements for this financial year have been compiled in accordance with the standards laid down by the Institute of Municipal Finance Officers.

Operating results

The overall operating results of the Ikwezi Municipality for the year ended 30 June 2008 are outlined below:

	Actual 2008 R	Actual 2007 R	Variance	Variance Actual/ Budget	
			2007/08 %	Budget 2008 R	%
Income					
Opening (deficit)/surplus	(2 232 593)	208 367			
Operating Income	13 862 960	12 519 476	10.73%	14 402 800	3.75%
Closing Deficit	2 891 734	2 232 593			
	14 522 101	14 960 436			
Expenditure					
Operating Exp.	13 303 291	11 311 425	17.61%	14 343 640	7.25%
Appropriations	1 218 810	3 649 011			
Closing deficit	14 522 101	14 960 436			

The accumulated deficit has increased from R2,232,593 to a deficit of R2,891,734 during the year. The liability raised by SARS on outstanding PAYE and UIF from year 2000 to 2004 has contributed to the increase in accumulated deficit. Penalties and interest were added in the total outstanding amount of R1,013,482.

Rates and General services

			Variance		Variance Actual/ Budget	
	Actual 2008		2007/08	Budget 2008		
	R	R	%	R	%	
Income	10 856 005	9 812 104	10.64%	11 501 300		5.61%
Expenditure	10 099 818	8 710 796	15.95%	11 107 590		9.07%
Surplus/(deficit)	<u>756 187</u>	<u>1 101 308</u>		<u>393 710</u>		

Trading Services

			Variance		Variance Actual/ Budget	
	Actual 2008		2007/08	Budget 2008		
	R	R	%	R	%	
Electricity service						
Income	2 192 976	1 996 645	9.83%	2 130 500		2.93%
Expenditure	1 989 594	1 937 454	2.69%	2 119 420		6.13%
Surplus/(deficit)	<u>203 382</u>	<u>59 191</u>		<u>11 080</u>		

We were able to realize surpluses for the year due to proper controls that were put in place. Continuous checking and testing of electric cables resulted in less tempering (reducing losses on electricity sales). An employee from the municipality has been dispatched to go around the households on a regular basis and monitor the connection of electric cables. He then draws up a list of households with deficient electricity cables, which is then submitted to our infrastructure department for rectification. Another challenge relates to the old infrastructure which is no longer reliable, our electricity infrastructure is mostly overhead, is extremely vulnerable to adverse weather conditions. The poor condition also leads to further electricity losses and an upgrade (or better still – a complete overhaul) is urgently required.

Water Services

			Variance		Variance Actual/ Budget	
	Actual 2008		2007/08	Budget 2008		
	R	R	%	R	%	
Water service						
Income	813 979	710 727	14.53%	771 000		5.57%
Expenditure	1 213 879	663 175	83.04%	1 116 630		8.71%
Surplus/(Deficit)	(399 900)	47 552		(345 630)		

A provision of R572,631 for doubtful debtors led to the deficit in water services. The challenge we have here is the fact that we charge a flat rate for everyone, businesses, government departments

and private consumers. This practice is not only depriving the municipality of possible income , but is also unfair to consumers. The condition of our infrastructure is also a cause for concern as the rate charged does not reflect the true status of consumption.

Capital expenditure and Financing

	Actual 2008	Budget 2008	Actual 2007
	R	R	R
Land & buildings			30 995
Infrastructure:			
Roads	79 362		1 649 056
Town Planning			74 788
Sewerage and sanitation	14 557 935	6 428 000	6 298 315
Water	2 059 224		1 277 127
Electricity			79 885
Housing services	2 248 026		1 945 420
Other fixed assets:			
Vehicles			
Software	415 695		
Furniture and equipment	341 383		325 723
	19 701 625	6 428 000	11 681 309

Resources used to finance the fixed assets were as follows:

	Actual 2008	Budget 2008	Actual 2007
	R	R	R
Grants and subsidies	19 545 518	6 428 000	11 613 995
Provision and reserves	127 123		
Contributions from income	28 984		67 314
	19 701 625	6 428 000	11 681 309

A complete analysis of capital expenditure and classification of service are included in Appendix C.

External loans, Investments and Cash

No external loans were outstanding at 30 June 2008. Investments and cash amounted to R3,783,308 compared to R2,496,598 in 2007.

Debtors

The total value for the year to June 2008 amounted to R2,815,527 and a large portion has been provided for a bad debts. Ikwezi is facing a challenge of unemployment - 62% of the adult population is unemployed. Coupled with that is an additional challenge of outdated debtor information on our database. Included in the debtors amount is amount owed to the municipality by itself.

- Plans are in place to embark on a **data cleansing project** which will see several properties transferred to rightful owners so as to enhance the proper billing process. Finance department has also noted with concern, the amount of debtors lying at 90 days and above and as a result of that demand letters are to be issued to private businesses and government departments that owe the municipality. Private consumers have also been encouraged to come to the municipality and register as indigents. A strategy is in place to collect as much as we can for the next financial year.

Leave Reserve Fund

During the reporting year, we have had challenges with our internal controls relating to proper completion of attendance registers by staff members. The matter has been raised by the Auditor

- General as one of the reasons for the qualified audit report, leave as reflected in the attendance registers could not correspond with the leave in the leave records. We have since put in place some measures to address the problem. We have allocated one of the interns in the finance department to look after the attendance register. He has to check the attendance register against the leave forms and see if the two agree with each other. The discrepancies are then addressed with the relevant departmental heads and the affected staff member.

Asset Register

The asset register is another issue raised by the Auditor General for the qualified audit report. The auditors could not verify certain assets as stated in our balance sheet, and in addition, some fixed assets acquired prior to the financial year end June 2005 could not be included in this year's balance sheet due to unavailability of supporting documentation. Management has since put in place measures to improve on this finding going forward. The Department of Local Government

and Traditional Affairs has allocated R400 000 to Ikwezi to address this issue. The department will appoint a service provider on behalf of the municipality. We are busy following up the matter with the Department about the progress on appointment of the service provider for Ikwezi so as to get the process started as soon as possible.

Expression of Appreciation

I would like to convey my sincere appreciation to the Mayor, members of the council, the Municipal Manager and Heads of Departments for the support they have given to my staff during the year.

I would also like to express a special word of appreciation to the staff members responsible for compiling the financial statements for their dedication.



Nceba Bomvane

Chief Financial Officer



Above : Training of household constructors in Jansenvile, Klipplaat and Waterford



Ms. Z. Ntile

2.3 Infrastructure

Background

The infrastructure Department is mandated to ensure that the service delivery is executed in accordance with the provisions of the constitution and Batho Pele principles.



The department consists of:

- Water and Sanitation section
- Electricity section
- Refuse removal, Dumpsites, Cemeteries, Parks and open spaces section
- Maintenance and Roads and Storm water section.

Projects

Ikwezi Municipality has championed various capital projects to better the lives of its inhabitants.

○ The following projects have created jobs for citizens of Ikwezi municipal area and contributed to a better life for all vision:

- **Household Contractors Project** – the Department of Roads and Transport has introduced a project of household contractors (HHC) whereby each household contractor is given a certain portion of land for about 1km to clean and when that is done move to the next section. The project is only done two days in a week eight days in a month with an incentive. These household contractors are trained in this project to have their own companies in the near future and to alleviate poverty. There were 50 HHC and an overseer of the project has been appointed to perform these duties at Ikwezi and the number has been extended due to the commitment of the people in the area. The number that has been added is 150 HHC with two overseers.

- **Water Tanks Project** – Ikwezi Municipality is a Water Services Authority and Provider and is a water scarce resource area whereby most of its water is drawn from the boreholes. The only town that has surface water is Kliplaat. Jansenville and Waterford have boreholes. The council decided to introduce Water Harvest Tanks Project as a short term solution to the water scarcity challenge. Local residents were employed to install these water tanks and local suppliers also benefited.
- **Housing Project** – Jansenville 350 and Kliplaat 418 housing projects continue to bring back dignity to our people. These projects will be finalised in the new financial year. Local sub-contractors, suppliers and communities continue to benefit from these projects. Council has applied for Jansenville 500, Kliplaat 200 and Waterford 100 housing projects and the department has set aside funds for these projects.
- **Bucket Eradication Project** – Ikwezi inherited communities which still used a bucket system. President Thabo Mbeki declared in his 2007 State of the Nation address that all the buckets in the formal settlement must be removed by end December 2007. Ikwezi was one of the municipalities that managed to meet this target, however, there are still minor snags and the snag list has been given to the contractors to address. The project has changed the living lifestyle of our people and this confirms that **Water is Life and Sanitation is Dignity**.

Challenges

- **Staff matters** – the Technical Manageress was appointed to perform at a strategic level but due to lack of human capacity she ended up performing operational and sometimes administrative functions. The Project Management Unit has to be established to ensure that all the allocated funds for the unit are spent within the stipulated period. The municipality does not have any engineering and town planning capacity. General workers are mostly illiterate and lack the necessary skills to execute their allocated tasks. In housing, the major challenge is that we do not have a housing unit rather an administrative person used to perform these additional functions.
- **Plant and machinery** – the municipality does not have heavy duty machinery to successfully execute its constitutional mandate. We have old tractors that break up time and again. Service delivery takes a huge knock and the image of the municipality gets dented as communities lose confidence in the ability of the municipality to carry its constitutional mandate.

- **MIG Allocation** – infrastructure backlog in Ikwezi is approximately R183m with internal bulk water at approximately R60m. MIG allocation to Ikwezi is R3,6m for 2008/09 financial year. Although facing technical challenges to register the approved projects – the question is how long it will take to eradicate water and sanitation backlogs with such allocations. The introduction of the Comprehensive Infrastructure Plan by Dplg is the only hope for municipalities to address these infrastructure backlogs.
- **Water quality** – the quality of water in Ikwezi especially in Jansenville has been a serious challenge for decades. There is no water treatment plant in Jansenville but Kliplaat does have one. The underground infrastructure is more than fifty years old and is rusted. The purified water from the reservoirs gets contaminated through the distribution network. This is a serious health hazard for our people.

Ikwezi Municipality is also actively participating in the RED 3 initiative driven by EDI Holdings. We hope that next financial year; we shall be engaged in section 78 processes.

Expression of Appreciation

I would like to convey my sincere appreciation to the Mayor, members of the council, the Municipal Manager and Heads of Departments for the support they have given to my staff during the year.

I would also like to express a special word of appreciation to the Portfolio Chairperson councilor Vanda and my infrastructure team for continued support.

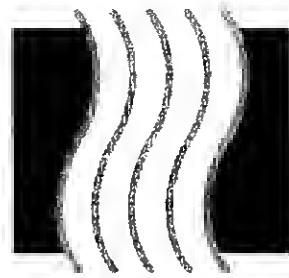

Zukiswa Ntile
Infrastructure Manageress



Above : Photo of the children during a road show organised by the SABC at lkwezi in 2008



*Invitation to the 1st International Mohair Summit
- uniting the Mohair Industry*



INTERNATIONAL **MOHAIR** SUMMIT

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SOUTH AFRICA

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HOSTED BY:



PARTNERS:



FACILITATED BY:



PART 3 :

AUDITED FINANCIAL STATEMENTS

AND

RELATED FINANCIAL INFORMATION

FOREWORD BY THE MAYOR

It is a great pleasure for Ikwezi Local Municipality to present the 2007/2008 Annual Financial Statements to the relevant organs of state. As the Mayor of the municipality, it is my responsibility to provide general political guidance over the fiscal and financial affairs of the municipality as prescribed by the Municipal Finance Management Act, 2003.

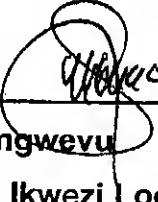
The political leadership and administration paid serious attention to Financial Viability and Good Governance in 2007/2008 financial year. Council practised sound Financial Planning and Management and broadened the scope of Internal Auditors. Management responded to matters of significance raised by the auditors.

Council is still faced with the following huge challenges:

- Conversion from IMFO to GAMAP/GRAP
- The Asset Register
- Capacity within Finance Department and
- Strategic alignment of the IDP, Budget, SDBIP and PMS

Through MSIG, FMG and other grants and support from Provincial Government, donors and other organs of state, Council is determined to overcome the said challenges.

Once again, I express my sincere gratitude and appreciation to the Accounting Officer, Chief Financial Officer, Senior Accountant, staff and our internal auditing team.



S.A. Mngwevu

Mayor: Ikwezi Local Municipality

IKWEZI MUNICIPALITY

GENERAL INFORMATION

Members of the Municipality Council -

Mngwevu S.A	-	Mayor
Bester J.	-	Councillor
Ferreira S.G	-	Councillor
Lizwane A.	-	Councillor
Vanda N.P	-	Councillor

Grading of Local Authority - Grade2

Auditors - Auditor General

Bankers - ABSA Bank - Jansenville

Registered Office 35 Main Street
Jansenville
6266

Tel. 049 836 0021 / 193
Fax. 049 836 0106

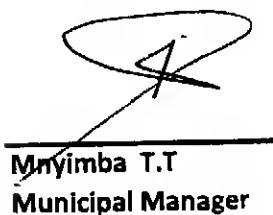
Municipal Manager - Mnyimba T.T

Chief Financial Officer - April R.D

IKWEZI MUNICIPALITY

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The financial statements for the 2007/2008 book year were approved by the Municipal Manager on 8 August 2008.



Myimba T.T
Municipal Manager

IKWEZI MUNICIPALITY

ACCOUNTING POLICIES

1. BASIS OF PRESENTATION

1.1 These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Treasurers and Accountants in its Report on the Standardisation of Financial Statements of Local Authorities. (2nd edition - 1996)

1.2 The financial statements are prepared on the historical cost basis. The accounting policies are consistent with those applied in the previous year.

1.3 *The financial statements are prepared on the accrual basis:*

income is accrued when collectable and measurable.

Expenditure is accrued in the year it is incurred.

2. CONSOLIDATION

The balance sheet includes Rate and General Services, Housing Services, Trading Services and the different funds, reserves and provisions. All inter-department charges are set-off against each other, with the exception of assessment rates, refuse removals, electricity and water, which are treated as income and expenditure in the respective departments.

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Property, plant and equipment are stated at historical cost while they are in existence and fit for use, except for the property that is brought in at the valuation as determined by the Valuer in 2007.

3.2 **Depreciation:** The balance shown against the heading "Loans Redeemed and other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for depreciation, however, certain structural differences do exist. By way of this "provision" assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

Appropriation from operating income. Where the full cost of the assets forms an immediate and direct charge against operating income, and therefore it is unnecessary to make any further provision for depreciation.

Grant of donation where the amount representing the value of such grant or donation is immediately credited to the "Local Redeemed and other Capital Receipts" account.

- 3.3 All Nett proceeds from the sale of property and proceeds form the sale of all other assets are credited to the Revolving Fund.
- 3.4 Capital assets are financed from different sources, including external loans, operating income and Government Grants. These loans repaid within the estimated lives of the assets acquired from such loans. Interest is charged to the service concerned at the ruling rates applicable at the time the advance is made.

4. FUNDS AND RESERVES

4.1 *Revolving Fund*

The Municipal Ordinance, No. 20 of 1974 section 75 (1)(a) requires a minimum contribution equal to 20 % more than the previous year's contribution.

5. PROVISIONS

The provisions are created for liabilities or contingencies which are known at the date of the balance sheet but for which the amount involved cannot be determined with substantial accuracy.

6. RETIREMENT BENEFITS

Ikwezi Municipality and its employees contribute to the SALA Pension Fund, IMATU Retirement Fund and the SAMWU National Provident Fund.

7. SURPLUS AND DEFICITS

Any surplus or deficit arising from the operating of the electricity and water services are transferred to Rate and General Services to alternate the tax burden of the rate payers.

8. INVESTMENTS

Investments are shown at market value and are invested according to the provisions contained in Circular 43 of 1993 issued by the Provision Administration.

9. INCOME RECOGNITION

9.1 *Electricity and Water Billings*

Electricity meters are read and billed monthly. Where meters cannot be read during a particular month, they are provisionally billed with the necessary adjustments made in the month they are indeed read. Water is charged at fixed monthly tariffs.

9.2 Assessment rates

Assessments rates are levied at the same rate on the value of land and building.

10. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The Cost Section: "Administrations" and "Councils' General Expenses" are charged out to other departments according to their respective expenditure incurred during the year.

IKWEZI MUNICIPALITY

FINANCIAL MANAGER'S REPORT FOR THE YEAR ENDED AT 30/06/08

I have pleasure in presenting my annual report, together with the financial statements for the year ended 30 June 2008.

The primary objective of the Finance Department is to assist the Head of Departments to control their budgets and to ensure effective application of financial resources.

1. OPERATING RESULTS

Details of the operating results per department, classification and object of expenditure are included in appendices D and E. The overall operating results for the year ended 30 June 2008, are as follows:

	Actual 2008 R	Actual 2007 R	Variance		Variance Actual/ Budget	
			2007/08 %	Budget 2008 R	%	
Income						
Opening (deficit)/surplus	(2,232,593)	208,367				
Operating income	13,862,960	12,519,476	10.73%	14,402,800		3.75%
Closing Deficit	2,891,734	2,232,593				
	<u>14,522,101</u>	<u>14,960,436</u>				
Expenditure						
Operating Exp.	13,303,291	11,311,425	17.61%	14,343,640		7.25%
Appropriations	1,218,810	3,649,011				
Closing deficit						
	<u>14,522,101</u>	<u>14,960,436</u>				

The consolidated accumulated deficit has increased from R 2,232,593 to a deficit of R 2,891,734 during the year. The reason for this is mainly because of a liability raised by SAR5 on outstanding PAYE and UIF returns for the years from 2000 to 2004. Penalties and interest were added in the total outstanding amount of R1, 013,482. The operating account realised a surplus of R559,669 as a result of savings on Indigent support and a increase in interest on investments.

1.1 RATES AND GENERAL SERVICES

	Actual 2008 R	Actual 2007 R	Variance		Variance Actual/ Budget	
			2007/08 %	Budget 2008 R	%	
Income						
Income	10,856,005	9,812,104	10.64%	11,501,300		5.61%
Expenditure	10,099,818	8,710,796	15.95%	11,107,590		9.07%
Surplus/(deficit)	<u>756,187</u>	<u>1,101,308</u>		<u>393,710</u>		

1.2 TRADING SERVICES

	Actual 2008 R	Actual 2007 R	Variance		Variance Actual/ Budget %
			2007/08	Budget 2008 R	
			%		
Electricity service					
Income	2,192,976	1,996,645	9.83%	2,130,500	2.93%
Expenditure	1,989,594	1,937,454	2.69%	2,119,420	6.13%
Surplus/(deficit)	<u>203,382</u>	<u>59,191</u>		<u>11,080</u>	

The increase in the surplus of electricity, is the result of ongoing checking and testing of pre-paid meters, that were "by-passing" in the past which resulted in losses in electricity sales.

	Actual 2008 R	Actual 2007 R	Variance		Variance Actual/ Budget %
			2007/08	Budget 2008 R	
			%		
Water service					
Income	813,979	710,727	14.53%	771,000	5.57%
Expenditure	1,213,879	663,175	83.04%	1,116,630	8.71%
Surplus/(Deficit)	<u>(399,900)</u>	<u>47,552</u>		<u>(345,630)</u>	

a Provision of R572,631 for bad debts, led to this deficit in water services. Debtors 90 days and older were fully provided as bad debts.

2. CAPITAL EXPENDITURE AND FINANCING

	Actual 2008	Budget 2008	Actual 2007
	R	R	R
Land & buildings			30,995
Infrastructure:			
Roads	79,362		1,649,056
Town Planning			74,788
Sewerage and sanitation	14,557,935	6,428,000	6,298,315
Water	2,059,224		1,277,127
Electricity			79,885
Housing services	2,248,026		1,945,420
Other fixed assets:			
Vehicles			
Software	415,695		
Furniture and equipment	341,383		325,723
	19,701,625	6,428,000	11,681,309

Resources used to finance the fixed assets were as follows:

	Actual 2008	Budget 2008	Actual 2007
	R	R	R
Grants and subsidies	19,545,518	6,428,000	11,613,995
Provision and reserves	127,123		
Contributions from income	28,984		67,314
	19,701,625	6,428,000	11,681,309

A complete analysis of capital expenditure(budget and actual)per department and a classification of service are included in appendix "C".

3. EXTERNAL LOANS, INVESTMENTS AND CASH

No external loans were outstanding at 30 June 2008 as also in 2007.

Investments and cash amounts to R 3,783,308 (2007: R 2,496,598).

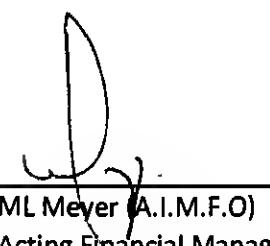
4. POST BALANCE SHEET EVENTS

No material transactions or events can be reported since 30 June 2008.

EXPRESSION OF APPRECIATION

I am grateful to the Mayor, members of the Council, the Municipal Manager and Heads of Departments for the support they have given to my staff and me during the year under review.

I would also like to express my appreciation to the staff of the Auditor-General for their co-operation and assistance during the audit of the Council's financial statements.


ML Meyer (A.I.M.F.O)
Acting Financial Manager
Ikwezi Municipality
08 August 2008

IKWEZI MUNICIPALITY
BALANCE SHEET
AT 30/06/08

	Note	<u>2008</u> R	<u>2007</u> R
CAPITAL EMPLOYED			
FUNDS AND RESERVES		2,281,087	2,319,789
Statutory Funds	1.1	1,027,050	1,014,125
Reserves	1.2	1,254,037	1,305,664
ACCUMULATED DEFICIT		(2,891,734)	(2,232,593)
		<hr/> (810,647)	87,196
TRUST FUNDS	1.3	2,629,174	2,225,269
LONG-TERM LIABILITIES	2	-	-
CONSUMER DEPOSITS: SERVICES	3	-	-
		<hr/> 2,018,527	2,312,465
EMPLOYMENT OF CAPITAL			
NON - CURRENT ASSETS			
Fixed Assets	4	-	-
NET CURRENT ASSETS		2,018,527	2,312,465
CURRENT ASSETS			
Debtors	5	6,666,423	6,814,814
Investments	6	2,815,344	4,318,216
Bank and cash	7	3,871,079	2,038,847
		<hr/> 4,567,896	457,751
CURRENT LIABILITIES		4,502,349	-
Bank overdraft	7	87,771	-
Provisions	8	328,400	-
Creditors	9	4,251,725	200,000
		<hr/> 4,302,349	-
		<hr/> 2,018,527	2,312,465

IKWEZI MUNICIPALITY
INCOME STATEMENT
FOR THE YEAR ENDED 30/06/08

2007 Actual Income R	2007 Actual Expenditure R	2007 Surplus/ (Deficit) R		2008 Actual Income R	2008 Actual Expenditure R	2008 Surplus/ (Deficit) R	2008 Budget Surplus/ (Deficit) R
9,812,104	8,710,796	1,101,308	RATES AND GENERAL SERVICES	10,856,005	10,099,818	756,187	393,710
7,413,351	6,079,342	1,334,009	Community services	8,956,986	6,960,825	1,996,161	940,570
	102,675	(102,675)	Subsidised services	-	134,241	(134,241)	(170,540)
2,398,753	2,528,779	(130,028)	Economic services	1,899,019	3,004,752	(1,105,733)	(376,320)
HOUSING SERVICES							
2,707,372	2,600,629	106,743	TRADING SERVICES	3,006,955	3,203,473	(196,518)	(334,550)
12,519,476	11,311,426	1,208,051	TOTAL	13,862,960	13,303,291	559,669	59,160
		(3,649,011)	Appropriations for the year (refer to Note 14)			(1,218,810)	
		(2,440,960)	Net deficit for the year			(859,141)	
		208,367	Accumulated surplus/(deficit) at beginning of the year the year			(2,232,593)	
		(2,232,593)	ACCUMULATED SURPLUS/(DEFICIT) AT END OF THE YEAR			(2,691,734)	

IKWEZI MUNICIPALITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30/06/08

	<u>Note</u>	<u>2006</u> R	<u>2007</u> R
CASH RETAINED FROM OPERATING ACTIVITIES		20,988,335	9,076,676
Cash available from operations	15	(10,267,941)	(7,438,800)
Cash received in investing activities		595,171	359,735
(Increase)/decrease in Working capital	16	(754,332)	(1,696,696)
Less: External interest paid			
Cash utilised by operations		(10,427,102)	(8,775,963)
Add:		31,415,437	17,651,539
Grants & Subsidies			1,100
Nett proceeds on disposal of assets			
CASH EFFECT OF FINANCING ACTIVITIES			
Investment in fixed assets		(19,701,625)	(11,681,309)
Net Cash flow		1,288,710	(2,604,633)
CASH EFFECT OF FINANCING ACTIVITIES			
Increase / (Decrease) in Long-term Liabilities	17	-	(58,243)
(Increase) / Decrease in Cash Investments	18	(1,832,232)	2,735,275
(Increase) / Decrease in Cash	19	545,522	(72,399)
Net cash (generated) / utilised		(1,266,710)	2,604,633

IKWEZI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30/06/08

	<u>2008</u> R	<u>2007</u> R
1 FUNDS		
1.1 STATUTORY FUNDS		
Revolving fund	929,475	919,142
Dog Tax fund	48,822	47,381
Housing Development fund	48,753	47,602
	<u>1,027,050</u>	<u>1,014,125</u>
(Refer to Appendix A for more detail)		
1.2 RESERVES		
Leave reserve Fund	600,899	510,539
Capital Replacement Reserve	853,138	795,125
	<u>1,254,037</u>	<u>1,305,664</u>
1.3 TRUST FUNDS		
Water Report	29,716	29,902
IDP	8,189	42,984
MIG: Jenseenville Sewer project	1,373,679	
HIV Aids Programme	-	2,653
MSP Funds	-	130,205
Drought Relief	-	440,338
LED - Ostrich/Feedlot	416,823	738,349
CMIP - Bucket eradication	79,107	80,715
General Valuation	166,622	
Klipplast Housing Project (250 Houses)	95,852	178,293
Klippleat Housing Project (210 Houses)	-	456,054
MSIG	114,486	2,536
PMS end Municipal Organ gram	9,003	9,877
Water Service Authority	41,253	62,354
Development of By-Laws	24,386	51,009
LED - Co-ordinator/Thine Sineko project	196,466	
Performance Management System	22,849	
Indigent Register	48,252	
Angora Goat project	2,491	
	<u>2,629,174</u>	<u>2,225,269</u>

(Refer to Appendix A for more detail)

2 LONG-TERM LIABILITIES

Development Bank of South Africa

Less: Current portion of Long term liabilities

These loans bearded interest at rates of 16.85% and 15.72 % per annum and was fully redeemed at 30 June 2007 - an application was approved by Development Bank to write off all arrear interest on condition that the loans were fully redeemed on 31 March 2007, which was adhered.

(Refer to Appendix B for more details)

IKWEZI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30/06/08

	2008 R	2007 R	
3 CONSUMER DEPOSITS : SERVICES			
Electricity & Water			
Other			
	<hr/>	<hr/>	
4 FIXED ASSETS			
Fixed Assets at beginning of year	49,973,215	23,936,832	
Add: Capital expenditure during the year	19,701,625	11,681,309	
Assets transferred during the year	(12,992)	14,355,074	
Total Fixed Assets	<hr/> 69,661,848	<hr/> 49,973,215	
Less: Loans redeemed and other capital receipts	69,661,848	49,973,215	
Net Fixed Assets	<hr/> <hr/>	<hr/> <hr/>	
Not included in above total, is an amount of R25 000 and R172 000 relating to clinic and Admin offices in Klipiaat respectively, which are still not transferred to the Municipality			
Also not included is the infrastructure cost for the period before the financial year 2004/05, value of which still needs to be determined.			
(Refer to Appendix C for more details)			
5 DEBTORS			
Debtors for rates and service charges *	9,864,432	7,669,317	
Less: Provision for bad debts	(9,270,986)	(7,064,406)	
	<hr/> 593,446	<hr/> 604,911	
Grants claimable from Cacadu DM - LED Projects	21,230	30,667	
H Herdwood Farm	210,938	82,789	
Other	283,753		
Accumulated Interest	41,920	18,078	
VAT - Debtors *	652,562	470,257	
VAT - creditors not yet paid	174,404	340,178	
VAT - Claim for May/June	480,654	446,844	
Grants from Prov. Government - Housing	287,290	2,260,774	
Sundry Debtors	69,147	83,718	
	<hr/> 2,815,344	<hr/> 4,318,216	
* VAT shown separate			
6 INVESTMENTS			
<i>Name of Bank</i>	<i>Acc Nr</i>	<i>Type of Investment</i>	
Absa Bank	9137635959	Money market deposit	3,800,586
Absa Bank	9101589574	Savings deposit	4,312
Absa Bank	9118667183	Call deposit	66,181
			<hr/> 3,871,079
			<hr/> 2,038,847

IKWEZI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30/06/08

	<u>2008</u> R	<u>2007</u> R
7 BANK AND CASH/(BANKOVERDRAFT)		
<i>Current Bank account: ABSA Bank (Acc no 4053099797)</i>		
Bank statement balance at the end of year	182,974	608,993
<i>Current Bank account: ABSA Bank (Acc no 2520141122)</i>		
Bank statement balance at the end of year	1,105	32,628
Consolidated Cash Book Balance at the end of year	(87,771)	457,751
8 PROVISIONS		
Audit Costs	250,000	200,000
Performance Bonuses: Section 57 employs	78,400	
	<u>328,400</u>	<u>200,000</u>
8 CREDITORS		
Trade creditors	1,178,467	2,908,100
Auditor-General	275,634	
Workman's Compensation	100,711	100,711
Service charges paid in advance	62,450	84,988
VAT - Income raised not yet paid by debtors	652,582	470,257
Dept. of Transport	32,770	34,174
Retention	913,159	678,216
Sundry creditors	22,490	25,903
PAYE/UIF in arrears for years 2000 - 2004	1,013,482	
	<u>4,251,725</u>	<u>4,302,349</u>
10 ASSESSMENT RATES		
	<u>Actual</u> <u>income</u> 2008 R	<u>Actual</u> <u>income</u> 2007 R
The total General valuation as at 30 June 2008 was R571 974 310	1,202,753	981,348
This Includes residential, businesses and farms		
11.1 COUNCILLORS INFORMATION		
<i>Remuneration</i>		
Speaker	195,900	182,236
Councillors	525,252	507,652
	<u>721,162</u>	<u>689,888</u>
These remuneration of the Councillors are within the upper limits of the framework envisaged in section 218 of the Constitution		
<i>Arrear rates and service charges outstanding for more than 90 days</i>		
Speaker: SA Mngwevu	2,716	2,836
Councillor: SG Ferreira	8	5,326
Councillor: NP Vanda	7,052	8,743
Councillor: JJ Bester	1,993	64
Councillor: A Lizwane	6,585	
	<u>18,354</u>	<u>14,968</u>

IKWEZI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30/06/08

	2008 R	2007 R
11.2 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	3,855,684	3,992,108
Employee related costs - Contributions to pension, medical aids	558,097	578,975
Travel allowances	132,498	324,335
Housing, standby, SDL and other allowances	177,202	136,758
Overtime payments	270,670	151,914
Bonuses	320,763	313,104
Cell phone allowance (Councillors only)	721,152	41,820
	<u>5,836,067</u>	<u>5,538,014</u>
An amount of R1,013,482 is raised by SARS as outstanding PAYE and UIF returns and penalties. This was for the periods 2000 - 2004 and is shown under Note 9 - Trade and other payables		
<i>Remuneration of the Municipal Manager</i>		
Annual Remuneration	196,846	224,889
Performance Bonus	28,000	35,077
Car Allowance	55,004	87,415
Contributions to UIF, SDL	968	4,128
	<u>280,818</u>	<u>331,510</u>
<i>Remuneration of the Chief Finance Officer</i>		
Annual Remuneration	178,581	165,254
Performance Bonus	18,094	32,612
Car Allowance	43,880	78,320
Contributions to UIF, SDL	1,327	3,647
	<u>241,882</u>	<u>277,833</u>
<i>Remuneration of the Technical Manager</i>		
Annual Remuneration	181,171	150,000
Performance Bonus	33,600	14,000
Car Allowance	53,833	50,000
Contributions to UIF, SDL	1,452	3,128
	<u>280,056</u>	<u>217,128</u>
12 AUDITORS' REMUNERATION		
Opening Balance	584,693	235,488
Current year external audit fee (Provision)	250,000	200,000
Current year Internal audit fee	153,120	130,618
Previous years external audit fee under provided	128,041	289,042
Amount paid - current year Internal audit fee	(8,945)	(5,956)
Amount paid - previous years external audit fee	(437,100)	(208,011)
Amount paid - previous year Internal audit fee	-	(55,488)
Balance unpaid (Included in provisions and creditors)	671,809	584,693

IKWEZI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30/06/09

	<u>2008</u> R	<u>2007</u> R
13 FINANCE TRANSACTIONS		
Total external interest paid and earned :		
- Interest earned	595,171	359,735
- Interest paid	-	-
Capital charges debited to operating account :		
Interest : External	-	-
14 APPROPRIATIONS		
Appropriation account		
Accumulated (deficit)/surplus at beginning of the year	(2,232,593)	208,367
Operating Surplus for the year	559,669	1,208,051
Appropriations for the year	(1,218,810)	(3,649,011)
Back-Pay for Councillors	-	(146,560)
Additional VAT claimed from SARS	-	113,119
RSC Levies for previous years	-	(38,695)
PWC: VAT audit I.r.o. previous years	-	(43,156)
Audit cost - under provided	(128,041)	(289,042)
Write-off Indigent debts		(1,036,703)
Performance Bonuses: 2005/06		(74,495)
Unknown consumer deposit's		32,417
Development Bank's Instalments		579,724
Disaster Trust not cash backed		59,402
Provision for bad debts - previous years		(2,808,353)
SARS PAYE/UIF arrears - returns not submitted from years 2000 - 2004		3,331
Billing corrections of previous years levies	(77,287)	
Accumulated (Deficit)/surplus at end of the year	(2,891,734)	(2,232,593)
15 CASH AVAILABLE FROM OPERATIONS		
Surplus/(deficit) for the year	559,669	1,208,051
Adjustment in respect of:		
Previous years' operating transactions	(1,218,810)	(3,649,011)
Appropriations charged against income	3,003,135	3,976,055
- Accumulated Funds (Interest)	251,026	186,718
- Revolving Fund	-	91,560
- Provisions & reserves	2,723,123	3,630,463
- Fixed assets	28,984	67,314
Capital charges:		
Interest: external		
Redemption: external	29,122	
<u>Less:</u>		
Operating grants and subsidies	(8,437,895)	(6,113,270)
Expenditure charged against Provisions and reserves	(5,585,951)	(2,534,348)
Investment income (Operating Account)	(588,089)	(355,399)
	<u>(10,267,941)</u>	<u>(7,438,800)</u>

IKWEZI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30/06/08

	<u>2008</u>	<u>2007</u>
	R	R
16 (INCREASE)/DECREASE IN WORKING CAPITAL		
(Increase)/Decrease In Inventory		
(Increase)/Decrease In Trade and other receivables	(703,708)	(3,715,657)
Increase/(Decrease) In Trade and other payables	(50,824)	2,018,759
	<u>(754,332)</u>	<u>(1,696,898)</u>
17 (INCREASE)/(DECREASE) IN LONG-TERM LIABILITIES		
Loans raised		
Loans repaid	-	(58,243)
	<u>-</u>	<u>(58,243)</u>
18 (INCREASE)/DECREASE IN CASH INVESTMENTS		
Investments made	(9,566,232)	(2,398,903)
Investments realised	7,734,000	5,134,178
	<u>(1,832,232)</u>	<u>2,736,276</u>
18 (INCREASE)/DECREASE IN CASH		
Cash on hand at beginning of year	457,751	385,352
Less: Cash on hand at end of year	(87,771)	457,751
	<u>546,622</u>	<u>(72,399)</u>
20 CONTRIBUTION TO ORGANIZED LOCAL GOVERNMENT		
Opening balance		
Council subscriptions	20,055	3,248
Amount paid - current year	(20,055)	(3,249)
Balance unpaid	<u>-</u>	<u>-</u>
21 RETIREMENT BENEFIT INFORMATION		
The employees of this Municipality are members of the following pension funds:		
SALA Pension Fund		
IMATU Retirement		
SAMWU Provident Fund		

IKWEZI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30/06/08

	<u>2008</u>	<u>2007</u>
	R	R
22 CAPITAL COMMITMENTS		
- Approved and contracted for		
Infrastructure	6,038,172	8,183,380
Other	6,038,172	3,896,309
This expenditure will be financed from:		
- Government Grants	6,038,172	8,183,380

23 UNAUTHORISED IRREGULAR FRUITLESS AND WASTEFUL EXPENDITURE

Reconciliation of unauthorised expenditure

Opening balance	3,619,309	
Unauthorised expenditure current year		3,619,309
Approved by Council or condoned	3,619,309	
Unauthorised expenditure awaiting authorising		3,619,309

Reconciliation of wasteful expenditure

Opening balance
Fruitless and wasteful expenditure currant year
Approved by Council or condoned
Fruitless and wasteful expenditure awaiting condonement

Reconciliation of irregular expenditure

Opening balance _____
Irregular expenditure current year _____
Approved by Council or condoned _____
Irregular expenditure awaiting condonement _____

24 CONTINGENT LIABILITIES

Claim for Injuries _____ **50,000**

25 TAXES PAID TO SARS

PAYE	594,175	448,562
Unemployment Insurance Fund: Council	45,178	45,093
Employee's	45,178	45,093
Skills development Levy	44,271	46,544
	728,802	585,282
<i>See Note 13 for outstanding amounts on these amounts levies.</i>		

See Note 13 for outstanding amounts on these taxes and levies.

28 RELATED PARTIES

The son of Councillor NP Vanda, Mr. M Vanda, is one of two managers in charge of the LED project, Ikhala Sewing Factory.

The total expenditure for this project for 2007/08 financial year, was an amount of R7,056 for operating expenditure and R127,123 for capital equipment.

APPENDIX A
IKWEZI MUNICIPALITY
STATUTORY FUNDS, TRUST FUNDS AND RESERVES
FOR THE YEAR ENDED 30/06/08

	<u>Balance at 1 July 2007</u>	<u>Contributions during the year</u>	<u>Interest on Investments</u>	<u>Other Income</u>	<u>Operating Expenditure</u>	<u>Capital Expenditure</u>	<u>Balance at 30 June 2008</u>
STATUTORY FUNDS							
Revolving Fund	919,142		28,135		17,802		929,475
Dog Tax Fund	47,381		1,441				48,822
Housing Development fund	47,602		1,445		294		48,753
	1,014,125	0	31,021	0	18,096	0	1,027,060
RESERVES							
Leave reserve	510,539	188,143	12,930		110,713		600,899
Capital Replacement Reserve	795,125		20,423		35,287	127,123	653,138
	1,305,664	188,143	33,353	0	146,000	127,123	1,264,037
TRUST FUNDS							
Water Report	29,902		891		1,077		29,716
IDP	42,984		954	50,000	85,749		8,189
MIG: Jansenvilla Sewer project			121,173	18,659,000	2,773,122	14,633,372	1,373,679
HIV Aids Programme	2,653		11		2,664		0
MSP Funds	130,205		1,554		89,680	42,079	0
Drought Relief	440,338		8,884		174,234	272,988	0
Financial Management Grant	0		5,020	500,000	505,020		0
LED - Ostrich/Feedlot	738,349		19,692	120,411	410,624	51,005	416,823
CMIP - Bucket eradication	80,715		2,415		98	3,925	79,107
General Valuation	0		6,044	625,000	464,422		166,622
Klipplaat Housing Project (250 Houses)	178,293		7,082	15,750	31,273	74,000	95,852
Klippleat Housing Project (210 Houses)	456,054		4,538	1,677,312	4,538	2,133,366	0
Jansenvilla Housing project (350 Houses)				50,691	10,032	40,659	0
MSIG	2,536		8,045	734,000	233,629	396,466	114,486
PMS and Municipal Organogram	9,877		273		1,147		9,003
Water Service Authority	62,354		1,661		22,762		41,253
Development of By-Laws	51,009		1,550		28,173		24,386
Rainwater Harvest				2,022,360	236,124	1,786,236	0
LED - Co-ordinator/Thina Sinako project			1,466	230,285	35,265		196,466
Performance Management System			2,119	123,875	2,257	100,888	22,849
Indigent Register			2,364	145,000	88,578	10,534	48,252
Angora Goat project				23,878	21,387		2,491
	2,225,269	0	193,736	24,977,542	5,221,865	19,546,618	2,629,174

APPENDIX B
IKWEZI MUNICIPALITY
EXTERNAL LOANS AND INTERNAL ADVANCES
FOR THE YEAR ENDED 30/06/08

<u>EXTERNAL LOANS</u>	<u>Balance at 1 July 2007</u>	<u>Interest during the year</u>	<u>Redeemed during the year</u>	<u>Balance at 30 June 2008</u>
Development Bank of South Africa (16,85% - 2011)	0		0	0
Development Bank of South Africa (15,72% - 2008)	0		0	0
(Refer to Note 3)	0	0	0	0

Above loans were fully redeemed during 2006/07 financial year
(See also Note 9)

APPENDIX C
IKWEZI MUNICIPALITY
ANALYSIS OF FIXED ASSETS
FOR THE YEAR ENDED 30/06/08

<u>Expenditure</u>		<u>Budget</u>	<u>Balance at</u>	<u>Expenditure</u>	<u>Transferred or</u>	<u>Balance at</u>
<u>2006/07</u>	<u>Service</u>	<u>2007/08</u>	<u>1 July 2007</u>	<u>during year</u>	<u>written off</u>	<u>30 June 2008</u>
R	R	R	R	R	R	R
8,378,877	RATES AND GENERAL SERVICES	8,429,000	28,145,663	15,394,375	(12,892)	43,527,036
1,899,224	Community services	-	9,002,875	958,311	(12,992)	9,947,994
30,995	Land & Buildings	6,287,748				6,287,748
	Administration	820,249		549,965		1,170,214
	Council's General	240,000		28,984		268,884
83,828	Motor vehicles	-				-
10,713	Office furniture & equipment					-
139,846	Health - Clinic	10,713				10,713
	Computer equipment	-				-
	Health - General	-				-
1,649,056	Roads & Storm water	1,684,056		78,362	(12,992)	1,760,426
74,766	Public works	-				-
	Town Planning	159,909				159,909
5,600	Subsidised services	-	6,800	-	-	6,800
	Civil buildings					
5,800	Library	5,800				5,800
6,374,053	Economic services	5,428,000	18,137,379	14,738,064	-	33,873,442
8,298,315	Sewerage services	6,428,000	13,807,473	14,557,935		28,365,408
	Refuse Removal	234,550				234,550
28,738	LED: Feedlot Project	29,738		51,006		80,744
11,842	LED: Bakery Project	125,174				125,174
34,158	LED: Shoe Fabric	144,848		127,123		271,971
	LED: Herdwood Farm	4,795,595				4,785,886
1,367,012	TRADING SERVICES	-	3,478,563	2,059,224	-	5,635,777
79,835	Electricity		376,360			376,360
1,277,127	Water works		3,100,193	2,059,224		5,169,417
1,945,420	HOUSING SERVICES	-	18,361,009	2,248,026	-	20,599,035
1,945,420	Sub-economic housing		18,351,009	2,248,026		20,589,036
11,881,309	TOTAL FIXED ASSETS	6,428,000	49,873,216	18,701,825	(12,992)	69,661,848
<u>LESS: LOANS REDEEMED AND OTHER CAPITAL RECEIPTS</u>						
11,739,862	Loans redeemed and advances repaid	49,873,215	18,701,625	(12,992)	98,991,948	
58,243	Contributions ex operating income	-	28,984			247,298
57,314	Provisional and reserves	-	127,123			127,123
11,813,995	Grants and subsidies	49,754,901	18,545,519	(12,992)	89,297,427	
(58,243)	NET FIXED ASSETS	8,428,000	-	-	-	-

APPENDIX D
IKWEZI MUNICIPALITY
ANALYSIS OF OPERATING INCOME AND EXPENDITURE
FOR THE YEAR ENDED 30/08/08

<u>Actual</u> <u>2007</u> R	<u>INCOME</u>	<u>Actual</u> <u>2008</u> R	<u>Budget</u> <u>2008</u> R
981,348	Assessment Rates	1,202,753	1,550,000
4,985,299	Equitable share	5,894,191	5,694,000
4,405	Income from Burial sites	5,570	3,500
0	Income from Library	0	1,400
889,228	Income from other Sources	1,111,159	393,500
71,882	Income from Traffic	84,861	85,000
355,399	Interest earned - external	588,089	100,000
705,172	Refuse Removal	714,426	690,500
22,291	Rentals	19,507	8,000
1,972,426	Sale of electricity	2,187,932	2,130,500
710,727	Sale of water	813,979	771,000
893,548	Sanitation/Sewerage	896,789	760,980
1,127,971	Subsidies/Government Grants	743,704	2,214,420
12,519,476	<u>TOTAL INCOME</u>	13,882,980	14,402,800
<u>EXPENDITURE</u>			
5,539,014	Salaries, wages & allowances	5,838,087	8,716,249
5,289,128	General Expenses	5,148,752	8,685,931
1,351,538	Electricity purchased	1,414,294	1,470,000
3,937,590	Other	3,732,458	5,195,931
228,928	Repairs and Maintenance	400,781	1,308,900
29,122	Capital charges	0	0
87,314	Contribution to capital	28,984	0
713,870	Contribution to funds	2,394,723	400,000
11,865,174	<u>GROSS EXPENDITURE</u>	13,807,307	15,089,080
553,749	<u>Less : Amounts charged out</u>	504,016	745,440
11,311,425	<u>NET EXPENDITURE</u>	13,303,291	14,343,840

APPENDIX E
IKWEZI MUNICIPALITY
DETAILED INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 30/06/08

2007			2007			2008			2008		
<u>Actual</u> <u>Income</u>	<u>Actual</u> <u>Expenditure</u>	<u>Surplus/</u> <u>(Deficit)</u>	<u>Actual</u> <u>Income</u>	<u>Actual</u> <u>Expenditure</u>	<u>Surplus/</u> <u>(Deficit)</u>	<u>Actual</u> <u>Income</u>	<u>Actual</u> <u>Expenditure</u>	<u>Surplus/</u> <u>(Deficit)</u>	<u>Budget</u> <u>Surplus/</u> <u>(Deficit)</u>		
R	R	R	R	R	R	R	R	R	R		
8,812,104	8,710,786	1,101,308	RATES & GENERAL SERVICES	10,856,006	10,099,818	756,187	383,710				
7,413,351	8,078,342	1,334,009	Community services	8,856,986	8,980,826	1,998,181	940,570				
861,348	91,560	889,788	Assessment rates	1,202,753		1,202,753	1,550,000				
5,584,269	3,374,718	2,219,571	Administration: Finance & Corporative	8,766,905	3,826,933	2,839,972	1,406,950				
	504,184	(504,184)	Administration: Public Works		672,106	(672,106)	(658,270)				
4,405	3,835	470	Cemeteries	5,570	11,258	(5,888)	(11,690)				
237,356	458,863	(221,607)	Health: Klipplaet clinic	304,101	348,891	(44,790)					
511,001	862,286	(371,287)	Council's General	583,596	1,123,115	(539,518)	(441,840)				
	698,088	(698,088)	Streets & storm water		736,014	(736,014)	(857,120)				
	8,052	(9,052)	Sport grounds		57,634	(57,634)	(14,700)				
13,290	41,763	(28,473)	Town Halls	9,198	70,598	(61,400)	(95,880)				
71,862	14,791	56,871	Traffic & licensing	84,861	14,275	70,586	83,120				
-	102,875	(102,875)	Subsidised services			134,241	(134,241)	(170,540)			
	102,675	(102,675)	Civil buildings			134,241	(134,241)	(170,540)			
			Library								
2,388,753	2,528,778	(130,028)	Economic services	1,888,018	3,004,752	(1,106,733)	(376,320)				
705,855	467,567	238,288	Refuse Removal	714,428	890,917	(176,491)	46,770				
693,548	1,061,862	(368,314)	Sanitation & sewerage	596,788	1,826,031	(929,242)	(423,090)				
88,920	86,920		LED: Bakery Project	86,172	86,172		-				
73,332	73,332		LED: Shoe Factory	7,056	7,056		-				
839,098	839,098		LED: Hardwood Farm	394,575	394,575		-				
2,707,372	2,800,629	106,743	TRADING SERVICES	3,006,956	3,203,473	(186,518)	(334,550)				
1,996,645	1,937,454	59,181	Electricity	2,192,876	1,989,594	203,382	11,060				
710,727	663,175	47,552	Water	813,979	1,213,879	(399,900)	(345,630)				
12,619,476	11,311,426	1,208,051	TOTAL	13,862,860	13,303,281	566,866	56,160				
			Appropriations for the year (refer to Note 14)				(1,218,610)				
			NET DEFICIT FOR THE YEAR				(659,141)				
			ACCUMULATED SURPLUS AT BEGINNING OF THE YEAR				(2,232,593)				
			ACCUMULATED SURPLUS/(DEFICIT) AT END OF THE YEAR				(2,891,734)				

ANNEXURE F
IKWEZI MUNICIPALITY
STATISTICAL INFORMATION
FOR THE YEAR ENDED 30/06/06

	<u>2008</u>	<u>2007</u>	<u>2006</u>
A. General statistics			
1. Population:	Jansenville	5791	5791
	Klipplaat	3275	3275
2. Area (km ²)	4293	4293	4293
3. <u>Valuation of Property</u>			
Rateable property			
- Land & Improvements	R571 974 310		
Non-rateable property			
- Land	N/A		
- Improvements	N/A		
Date of Valuation	01 July 2007		
Residential property			
- Land	N/A		
- Improvements	N/A		
Commercial, Industrial end other property			
- Land	N/A		
- Improvements	N/A		
4. Number of properties			
- Residential	N/A		
- Commercial, Industrial end other	N/A		
5. Assessment rates: Cent in the Rand			
Residential properties			
- Land	1.476	0.034026	0.034026
- Buildings	1.476	0.034026	0.034026
Commercial, industrial end other property			
- Land	1.771	0.036068	0.034026
- Buildings	1.771	0.036068	0.034026
Agriculture			
- Land	0.300		
- Buildings	0.300		
6. Number of employees	69	63	71
B. Electricity Statistics			
Units purchased	5,663,629	5,613,822	5,486,463
Units Sold	4,233,372	4,044,343	3,440,309
Units lost in distribution	1,430,257	1,569,279	2,046,154
Percentage lost in distribution	25%	26%	37%
Cost per unit sold	R 0.47	R 0.48	R 0.47
C. Water statistics			
Units purified	N/A	N/A	N/A
Units Sold	N/A	N/A	N/A
Units lost in distribution	N/A	N/A	N/A
Percentage lost in distribution	N/A	N/A	N/A
Cost per unit sold	N/A	N/A	N/A
- Residential	N/A	N/A	N/A
- Commercial	N/A	N/A	N/A

**REPORT OF THE AUDITOR-GENERAL TO PROVINCIAL LEGISLATURE AND
THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE
INFORMATION OF IKWEZI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE
2008**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ikwezi Municipality which comprise the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages ... to

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:

- appropriateness of accounting policies used
 - reasonableness of the accounting estimates made by management
 - overall presentation of the financial statements
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis of accounting

8. The municipality's policy is to prepare the financial statements on the entity-specific basis of accounting as set out in accounting policy note 1.

Basis for qualified opinion

Leave reserve fund

9. Included in the balance sheet is an amount of R1,2m for reserves. Included in this amount is the leave reserve fund amounting to R600 899 (note 1.2 to the AFS refers). I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy and valuation of the leave reserve fund due to the following:
- 9.1 The attendance registers and the leave records were not reconciled during the year under review. Leave as indicated in the attendance registers did not in all instances correspond with the leave as per the leave records, casting doubt over the accuracy of the leave credits on which the leave reserve fund was based.

Fixed assets

10. Included in note 4 to the financial statements is the historical cost of R69,6m for fixed assets. I was unable to obtain sufficient appropriate audit evidence over the existence and completeness of fixed assets due to the following:
- 10.1 Fixed assets could not be physically verified due to the lack of appropriate information in the fixed asset register.
- 10.2 Certain fixed assets acquired prior to the financial year ended 30 June 2005 have not been included in the amount disclosed for the fixed assets as the value of these assets could not be reliably determined due to the unavailability of supporting documentation.

Debtors

11. Included in the debtor balance of R2,8m in the balance sheet is an amount of R1 639 821 relating to rates and general services and trading services charged by the municipality to the various departments within the municipality. This resulted in the debtors and rates and general services and trading services being overstated by R1 639 821, and provision for bad debts and general expenses overstated by R1 537 562 and accumulated deficit for the year understated by R102 259.

Qualified opinion

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ikwezi Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with

the basis of accounting as set out in paragraph 1 of the accounting policies and in the manner required by the MFMA and DoRA.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Internal Controls

12. Section 62 (1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal controls, which lead to the qualified opinion. The root cause are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Basis for qualification					
Levee pay reserve fund			X		
Fixed assets			X		
Accounts receivable			X		

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

The following instances of non-compliance with the MFMA were noted:

13. Not all suppliers were paid within 30 days of receiving the relevant invoice or statements as required by section 65(2)(e) of the MFMA.
14. Funds collected by the municipality on behalf of the Department of Transport were not paid over to the relevant department on a weekly basis as required by section 64(4) of the MFMA.
15. The municipality did not submit a consolidated report of all withdrawals made from the municipality's bank account to the provincial treasury or the Auditor-General as required by section 11(4)(a) and (b) of the MFMA.

16. The municipality did not submit the reports on allocations received to the national or provincial organ of state or municipality which transferred the allocation, as required by section 71(5) of the MFMA.
17. No particulars of corrective action taken or to be taken in response to issues raised in the audit reports by the Auditor-General were included in the annual report for 2006-07 as required by section 121(3)(g) of the MFMA.
18. Contracts entered into by the municipality were not made available to the council or public as required by section 33(3)(a)(i) and (ii) of the MFMA.
19. The mayor of the municipality did not table within 10 months before the start of the budget year, a time schedule outlining key deadlines for the budget process as required by section 21(1)(b) of the MFMA.
20. The website of the municipality did not contain all the information as required by section 75 of the MFMA.
21. The mayor of the municipality did not submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days of the end of each quarter as required by section 52(d) of the MFMA.
22. Evidence could not be obtained that the accounting officer of the municipality had submitted its annual report to the provincial legislature within seven days after the municipal council adopted the relevant oversight report, as required by section 132(1)(a) and (2) of the MFMA.
23. Evidence could not be obtained that the accounting officer of the municipality had assessed and submitted the required information on the mid-year budget and performance assessment by 25 January 2008 to the mayor, the National Treasury and the provincial treasury as required by section 72(1) of the MFMA.

The following instances of non-compliance with the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) were noted:

24. The municipality did not comply with the requirements of section 118 of the MSA in that it issued the prescribed certificates to the Registrar of Deeds in respect of property transfers where the consumer accounts were not settled.
25. The municipality did not have the following human resource systems and procedures in place as required by section 67(1)(b), (c), (d) and (e) of the MSA:
 - (a) Service conditions of staff
 - (b) Supervision and management of staff
 - (c) Monitoring/measuring and evaluating of performance of staff
 - (d) The promotion and demotion of staff.

26. A system of delegation that will maximise administrative and operational efficiency and provide adequate checks and balances was not in place during the 2007-08 financial year as required by section 59(1) of the MSA.

The following instance of non-compliance with the Local Government: Municipal Structures Act, 2000 (Act No. 117 of 1998) were noted:

27. Contrary to section 30(1) of the Municipal Structures Act, votes were taken on matters at council meetings where the majority of councillors were not present.

Matters of governance

28. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. The audit committee operates in accordance with approved, written terms of reference. The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	✓	
Internal audit		
<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. The internal audit function operates in terms of an approved internal audit plan. The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	✓	✓
Other matters of governance		
<ul style="list-style-type: none"> The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA. The annual report was submitted to the auditor for consideration prior to the date of the auditor's report. The financial statements submitted for audit were not subject to any material amendments resulting from the audit. No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. The prior year's external audit recommendations in the management report have been substantially implemented. 	✓	✓
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 	✓	✓

Unaudited supplementary schedules

29. The following supplementary schedules included in the annual financial statements at 30 June 2008 were not audited:

- (a) Appendix A: Statutory Funds, Trust Funds and Reserves for the year ended 30/06/08
- (b) Appendix B: External Loans and Internal Advances for the year ended 30/06/08
- (c) Appendix C: Analysis of Fixed Assets for the year ended 30/06/08
- (d) Appendix D: Analysis of Operating Income and Expenditure for the year ended 30/06/08
- (e) Appendix E: Detailed Income and Expenditure Statement for the year ended 30/06/08
- (f) Annexure F: Statistical Information for the year ended 30/06/08.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

30. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

31. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

Responsibility of the Auditor-General

32. I conducted my engagement in accordance with section 13 of the Public Audit Act—read-with-General-Notice-616-of-2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 of the MSA.

33. In terms of the foregoing my engagement included performing procedures to an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

34. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

35. The Internal auditors of the Ikwezi Municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the audit committee as required by regulation 14(1)(c) of *Local Government: Municipal Planning and Performance Management Regulations, 2001* (published under GN R796 in GG22605 of 24 August 2001) (the regulations).

36. The 2007-08 IDP does not include an organogram indicating how the IDP will be implemented and how the municipality's transformation needs will be addressed as required by Regulation 2(1)(a).

37. The council's development strategies as contained in the IDP were not aligned with any national or provincial sectoral plans as required by section 26(d) of the MSA.
38. The financial plan reflected in the IDP did not contain the following strategies as required by Regulation 2(3)(c)(ii), (v) and (vi):
- i. Asset management strategies
 - ii. Operational financing strategies
 - iii. Strategies that would enhance cost-effectiveness.
39. Not all the key performance indicators (KPIs) set out in the IDP included relevant outcomes and impacts as required by section 41(1)(a) of the MSA.
40. The municipality did not comply with Regulation 9(1)(a) in that clear input indicators, output indicators and outcome indicators had not been set for each of its development priorities and objectives.
41. Not all the KPIs met the criteria of being measurable, relevant, objective and precise as required by Regulation 9(1)(b). Examples include:
- i. Training on self development
 - ii. Approach commercial farmers on participating in proactive land acquisition policy
 - iii. Installation of water meters.
42. The municipality's 2007-08 budget was not based on the development priorities and objectives included in the IDP as required by Regulation 6(a).
43. The municipality did not give notice of the adoption of the IDP to the public within 14 days of the date of adoption as required by section 25(4)(a)(i) of the MSA.
44. A copy of the adopted IDP was not submitted to the MEC of local government within 10 days of the adoption of the plan as required by section 32(1)(a) of the MSA.

Measurable objectives and indicators and targets not consistent

45. No clear link could be established between certain developmental objectives, KPIs and targets as contained in the IDP.

	Developmental objective	KPI	Target
1.	To ensure that the existing level of infrastructure is maintained	Awareness campaign on environmental health	Awareness campaign completed
2.	To provide for the basic needs of the Ikwezi Municipality	Elimination of alien vegetation	Reduce alien vegetation

APPRECIATION

46. The assistance rendered by the staff of the Ikwezi Municipality during the audit is sincerely appreciated.

Auditor-General

Port Elizabeth
30 November 2008



AUDITOR-GENERAL

**To the Mayor
Ikwezi Municipality
Jansenville**

**REPORT OF THE AUDIT COMMITTEE OF THE IKWEZI MUNICIPALITY FOR THE FINANCIAL
YEAR ENDED 30 JUNE 2008**

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee has adopted appropriate formal terms of reference and consists of three independent external members as listed hereunder all of whom are chartered accountants

The Audit Committee strives to meet at least four times a year in accordance with its terms of reference

During the financial year ended 30 June 2008 the following meetings were held

DATE OF MEETING	NAME OF MEMBER	NUMBER OF MEETINGS ATTENDED
	D Rosenberg (Chair)	
	R Blignaut	
	R Botha	

AUDIT COMMITTEE RESPONSIBILITIES

The Audit Committee reports that it complied, to the extent possible, with its terms of reference

OVERALL COMMENT

The Audit Committee is pleased to report that there was a meaningful improvement in the internal controls, administration and financial management of the municipality during the year under review. Also the Audit Committee was impressed with the professional and expeditious way in which the municipality dealt with the VAT liability relating to prior periods.

We are cautiously optimistic that given the appropriate level of manpower the municipality will continue to show improvement in its administration

generally but we are concerned that the new financial and budgeting requirements might overwhelm the staff of the municipality unless it is able engage staff with the requisite skills set

REVIEW OF THE ANNUAL FINANCIAL STATEMENTS

The Audit Committee takes note of the qualified audit opinion issued by the office of the Auditor-General but also wishes to point out that the qualification relates to only three specific matters, as follows:

1.Leave Reserve Fund--this qualification resulted from insufficient audit evidence. Our understanding is that the municipality has taken the necessary action to rectify this matter

2.Fixed Assets--this qualification results from the Auditor-General being unable to obtain sufficient audit evidence as to the existence and completeness of fixed assets. We are doubtful that the municipality will be able to rectify this matter during the year ended 30 June 2009 since it will require a significant amount of man hours and engineering input to identify and value all the fixed assets belonging to the municipality

3.Debtors--this qualification relates to an accounting anomaly which we believe can easily be rectified during the year ending 30 June 2009-02-24

We also note that the municipality is trading under insolvent circumstances but we are cognizant of the fact that once the fixed assets are put on the balance sheet at fair value the state of insolvency will be reversed unless the financial position of the municipality deteriorates markedly during the 2008 / 2009 financial year

Further work needs to be done by the municipality to improve its internal controls and to comply more fully with all applicable legislation--we take this opportunity to remind the management of the municipality that the Auditor-General might deem it appropriate in the future to qualify a set of financial statements purely on the grounds that the internal controls are inadequate

We furthermore believe that the municipality should continue to assess its risk profile on an ongoing basis and take the requisite steps to mitigate the risks that are identified

To our knowledge no major fraudulent activity has been reported at the municipality during the year under review

Finally, we note that Municipality did not fully comply with its performance management obligations during the year under review

APPRECIATION

We would like to take this opportunity to thank both the Auditor-General and the Internal Auditors for their excellent co-operation and for their outstanding work during the financial year and subsequent to the financial year

Yours faithfully



Professor David Rosenberg

Grahamstown

24 February 2009

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